

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: June 30, 2024

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-38804

Zynex, Inc.

(Exact name of registrant as specified in its charter)

<p>NEVADA (State or other jurisdiction of incorporation or organization)</p>	<p>90-0275169 (IRS Employer Identification No.)</p>
<p>9655 Maroon Cir. Englewood, CO (Address of principal executive offices)</p>	<p>80112 (Zip Code)</p>
<p>(800) 495-6670 (Registrant's telephone number, including area code)</p>	

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	ZYXI	NASDAQ Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

<p>Large accelerated filer <input type="checkbox"/></p>	<p>Accelerated filer <input checked="" type="checkbox"/></p>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of July 22, 2024
Common Stock, par value \$0.001	31,742,522

[Table of Contents](#)

ZYNEX, INC. AND SUBSIDIARIES
INDEX TO FORM 10-Q

	<u>Page</u>
PART I—FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Condensed Consolidated Balance Sheets as of June 30, 2024 (unaudited) and December 31, 2023	3
Unaudited Condensed Consolidated Statements of Income for the three and six months ended June 30, 2024 and 2023	4
Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2024 and 2023	5
Unaudited Condensed Consolidated Statements of Stockholders' Equity for the three and six months ended June 30, 2024 and 2023	6
Unaudited Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	27
PART II—OTHER INFORMATION	28
Item 1. Legal Proceedings	28
Item 1A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3. Defaults Upon Senior Securities	29
Item 4. Mine Safety Disclosures	29
Item 5. Other Information	29
Item 6. Exhibits	30
SIGNATURES	31

PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

ZYNEX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT NUMBER OF SHARES)

ASSETS	June 30, 2024 (unaudited)	December 31, 2023
Current assets:		
Cash and cash equivalents	\$ 30,896	\$ 44,579
Accounts receivable, net	23,594	26,838
Inventory, net	15,390	13,106
Prepaid expenses and other	4,235	3,332
Total current assets	<u>74,115</u>	<u>87,855</u>
Property and equipment, net	3,250	3,114
Operating lease asset	11,189	12,515
Finance lease asset	785	587
Deposits	409	409
Intangible assets, net of accumulated amortization	7,705	8,158
Goodwill	20,401	20,401
Deferred income taxes	4,061	3,865
Total assets	<u>\$ 121,915</u>	<u>\$ 136,904</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	7,882	8,433
Operating lease liability	3,930	3,729
Finance lease liability	182	196
Income taxes payable	—	633
Accrued payroll and related taxes	6,244	5,541
Total current liabilities	<u>18,238</u>	<u>18,532</u>
Long-term liabilities:		
Convertible senior notes, less issuance costs	58,078	57,605
Operating lease liability	12,187	14,181
Finance lease liability	596	457
Total liabilities	<u>89,099</u>	<u>90,775</u>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; no shares issued and outstanding as of June 30, 2024 and December 31, 2023	—	—
Common stock, \$0.001 par value; 100,000,000 shares authorized; 42,163,221 issued and 31,725,742 outstanding as of June 30, 2024, 41,980,166 issued and 32,933,776 outstanding as of December 31, 2023	32	33
Additional paid-in capital	91,963	90,878
Treasury stock of 9,856,758 and 8,545,044 shares at June 30, 2024 and December 31, 2023, respectively, at cost	(87,186)	(71,562)
Retained earnings	28,007	26,780
Total stockholders' equity	<u>32,816</u>	<u>46,129</u>
Total liabilities and stockholders' equity	<u>\$ 121,915</u>	<u>\$ 136,904</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZYNEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
NET REVENUE				
Devices	\$ 15,920	\$ 13,743	\$ 29,945	\$ 25,687
Supplies	33,963	31,209	66,469	61,435
Total net revenue	<u>49,883</u>	<u>44,952</u>	<u>96,414</u>	<u>87,122</u>
COSTS OF REVENUE AND OPERATING EXPENSES				
Costs of revenue - devices and supplies	9,971	9,272	19,269	18,541
Sales and marketing	23,226	21,609	46,606	42,836
General and administrative	14,460	11,358	27,788	22,748
Total costs of revenue and operating expenses	<u>47,657</u>	<u>42,239</u>	<u>93,663</u>	<u>84,125</u>
Income from operations	2,226	2,713	2,751	2,997
Other income (expense)				
Gain on disposal of assets	19	—	19	2
Gain on change in fair value of contingent consideration	—	1,700	—	3,100
Interest expense, net	(630)	(317)	(1,142)	(401)
Other income (expense), net	<u>(611)</u>	<u>1,383</u>	<u>(1,123)</u>	<u>2,701</u>
Income from operations before income taxes	1,615	4,096	1,628	5,698
Income tax expense	398	742	401	775
Net income	<u>\$ 1,217</u>	<u>\$ 3,354</u>	<u>\$ 1,227</u>	<u>\$ 4,923</u>
Net income per share:				
Basic	\$ 0.04	\$ 0.09	\$ 0.04	\$ 0.13
Diluted	<u>\$ 0.04</u>	<u>\$ 0.09</u>	<u>\$ 0.04</u>	<u>\$ 0.13</u>
Weighted average basic shares outstanding	31,762	36,435	32,053	36,564
Weighted average diluted shares outstanding	32,204	37,061	32,516	37,249

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZYNEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(AMOUNTS IN THOUSANDS)
(unaudited)

	For the Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,227	\$ 4,923
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,329	1,311
Amortization	928	620
Non-cash reserve charges	—	(91)
Stock-based compensation	1,575	967
Non-cash lease expense	(467)	(158)
Benefit for deferred income taxes	(195)	(240)
Change in fair value of contingent consideration	—	(3,100)
Gain on disposal of fixed assets	(19)	(2)
Change in operating assets and liabilities:		
Accounts receivable	3,244	2,106
Prepaid and other assets	(805)	(661)
Accounts payable and other accrued expenses	(288)	(1,172)
Inventory	(3,327)	(1,736)
Deposits	—	(92)
Net cash provided by operating activities	<u>3,202</u>	<u>2,675</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(290)	(394)
Proceeds on sale of fixed assets	—	10
Net cash used in investing activities	<u>(290)</u>	<u>(384)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on finance lease obligations	(148)	(62)
Cash dividends paid	(3)	(1)
Purchase of treasury stock	(15,625)	(9,468)
Excise tax payments on net treasury stock purchases	(473)	—
Proceeds from issuance of convertible senior notes, net of issuance costs	—	57,026
Proceeds from the issuance of common stock on stock-based awards	13	32
Principal payments on long-term debt	—	(10,667)
Taxes withheld and paid on employees' equity awards	(359)	(546)
Net cash (used in) provided by financing activities	<u>(16,595)</u>	<u>36,314</u>
Net (decrease) increase in cash	(13,683)	38,605
Cash and cash equivalents at beginning of period	44,579	20,144
Cash and cash equivalents at end of period	<u>\$ 30,896</u>	<u>\$ 58,749</u>
Supplemental disclosure of cash flow information:		
Cash paid on interest, net	\$ (630)	\$ (260)
Cash paid for rent	\$ (2,206)	\$ (2,378)
Cash paid for income taxes	\$ (1,325)	\$ (2,985)
Supplemental disclosure of non-cash investing and financing activities:		
Right-of-use assets obtained in exchange for new financing lease liabilities	\$ 346	\$ —
Finance lease liabilities removed for cancelled leases	\$ (73)	\$ —
Vesting of restricted stock awards	\$ —	\$ (3)
Excise tax accrual	\$ (18)	\$ —
Inventory transferred to property and equipment under lease	\$ 1,043	\$ 894
Capital expenditures not yet paid	\$ 37	\$ 78
Prepaid expenditures not yet paid	\$ (101)	\$ —
Non-cash dividend adjustment	\$ (1)	\$ (1)

The accompanying notes are an integral part of these condensed consolidated financial statements

ZYNEX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)
(unaudited)

	Additional					Total Stockholders' Equity
	Common Stock Shares	Common Stock Amount	Paid-in Capital	Treasury Stock	Retained Earnings	
Balance at December 31, 2022	36,825,081	\$ 39	\$ 82,431	\$ (33,160)	\$ 17,048	\$ 66,358
Exercised and vested stock-based awards	66,045	—	27	—	—	27
Stock-based compensation expense	—	—	307	—	—	307
Warrants exercised	10,000	—	—	—	—	—
Shares of common stock withheld to pay taxes on employees' equity awards	(22,387)	—	(422)	—	—	(422)
Purchase of treasury stock	(232,698)	—	—	(3,353)	—	(3,353)
Net income	—	—	—	—	1,569	1,569
Balance at March 31, 2023	36,646,041	\$ 39	\$ 82,343	\$ (36,513)	\$ 18,617	\$ 64,486
Exercised and vested stock-based awards	45,626	—	9	—	—	9
Stock-based compensation expense	—	—	660	—	—	660
Shares of common stock withheld to pay taxes on employees' equity awards	(11,224)	(3)	(124)	—	—	(127)
Purchase of treasury stock	(666,200)	—	—	(6,115)	—	(6,115)
Net income	—	—	—	—	3,354	3,354
Balance at June 30, 2023	36,014,243	\$ 36	\$ 82,888	\$ (42,628)	\$ 21,971	\$ 62,267
	Additional					Total Stockholders' Equity
	Common Stock Shares	Common Stock Amount	Paid-in Capital	Treasury Stock	Retained Earnings	
Balance at December 31, 2023	32,933,776	\$ 33	\$ 90,878	\$ (71,562)	\$ 26,780	\$ 46,129
Exercised and vested stock-based awards	70,992	—	13	—	—	13
Stock-based compensation expense	—	—	734	—	—	734
Warrants exercised	20,000	—	—	—	—	—
Shares of common stock withheld to pay taxes on employees' equity awards	(23,041)	—	(240)	—	—	(240)
Purchase of treasury stock	(1,121,835)	(1)	—	(13,419)	—	(13,420)
Excise tax on net treasury stock purchases	—	—	(126)	—	—	(126)
Net income	—	—	—	—	10	10
Balance at March 31, 2024	31,879,892	\$ 32	\$ 91,259	\$ (84,981)	\$ 26,790	\$ 33,100
Exercised and vested stock-based awards	47,071	—	—	—	—	—
Stock-based compensation expense	—	—	841	—	—	841
Shares of common stock withheld to pay taxes on employees' equity awards	(11,342)	—	(119)	—	—	(119)
Purchase of treasury stock	(189,879)	—	—	(2,205)	—	(2,205)
Excise tax on net treasury stock purchases	—	—	(18)	—	—	(18)
Net income	—	—	—	—	1,217	1,217
Balance at June 30, 2024	31,725,742	\$ 32	\$ 91,963	\$ (87,186)	\$ 28,007	\$ 32,816

The accompanying notes are an integral part of these condensed consolidated financial statements.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) BASIS OF PRESENTATION

Organization

Zynex, Inc. (a Nevada corporation) has its headquarters in Englewood, Colorado. The term "the Company" refers to Zynex, Inc. and its active and inactive subsidiaries. The Company operates in one primary business segment, medical devices which include electrotherapy and pain management products. As of June 30, 2024, the Company's only active subsidiaries are Zynex Medical, Inc. ("ZMI," a wholly-owned Colorado corporation) through which the Company conducts most of its operations, and Zynex Monitoring Solutions, Inc. ("ZMS," a wholly-owned Colorado corporation). ZMS has developed a fluid monitoring system which received approval by the U.S. Food and Drug Administration ("FDA") during 2020 and is still awaiting CE Marking in Europe. ZMS has achieved no revenues to date. The Company's inactive subsidiaries include Zynex Europe, Zynex NeuroDiagnostics, Inc. ("ZND," a wholly-owned Colorado corporation) and Pharmazy, Inc. ("Pharmazy", a wholly-owned Colorado Corporation). The Company's compounding pharmacy operated as a division of ZMI dba as Pharmazy through January 2016.

In December 2021, the Company acquired 100% of Kestrel Labs, Inc. ("Kestrel"), a laser-based, noninvasive patient monitoring technology company. Kestrel's laser-based products include the NiCO™ CO-Oximeter, a multi-parameter pulse oximeter, and HemeOx™, a total hemoglobin oximeter that enables continuous arterial blood monitoring. Both NiCO and HemeOx are yet to be presented to the FDA for market clearance. All activities related to Kestrel flow through the ZMS subsidiary.

Nature of Business

The Company designs, manufactures, and markets medical devices that treat chronic and acute pain, as well as activate and exercise muscles for rehabilitative purposes with electrical stimulation. The Company's devices are intended for pain management to reduce reliance on medications and provide rehabilitation and increased mobility through the utilization of non-invasive muscle stimulation, electromyography technology, interferential current ("IFC"), neuromuscular electrical stimulation ("NMES") and transcutaneous electrical nerve stimulation ("TENS"). All the Company's medical devices are designed to be patient friendly and designed for home use. The devices are small, portable, battery operated, and include an electrical pulse generator which is connected to the body via electrodes. All of the medical devices are marketed in the U.S. and are subject to FDA regulation and approval. All of the products require a physician's prescription before they can be dispensed in the U.S. The Company's primary product is the NexWave device. The NexWave is marketed to physicians and therapists by the Company's field sales representatives. The NexWave requires consumable supplies, such as electrodes and batteries, which are shipped to patients on a recurring monthly basis, as needed. The Company also distributes complementary rehabilitation products such as back, knee and wrist braces, cervical and lumbar traction, and hot/cold therapy ("Distributed Rehabilitation Products").

During the six months ended June 30, 2024 and 2023, the Company generated all of its revenue in North America from sales and supplies of its devices to patients and healthcare providers.

Unaudited Condensed Consolidated Financial Statements

The unaudited condensed consolidated financial statements included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") and accounting principles generally accepted in the United States of America ("U.S. GAAP"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. A description of the Company's accounting policies and other financial information is included in the audited consolidated financial statements as filed with the SEC in the Company's Annual Report on Form 10-K for the year ended December 31, 2023. Amounts as of December 31, 2023, are derived from those audited consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the annual audited financial statements, accounting policies and notes thereto, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position of the Company as of June 30, 2024 and the results of its operations and its cash flows for the periods presented. The results of operations for the six months ended June 30, 2024 are not necessarily indicative of the results that may be achieved for a full fiscal year and cannot be used to indicate financial performance for the entire year.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of Zynex, Inc. and its subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The most significant management estimates used in the preparation of the accompanying condensed consolidated financial statements are associated with the allowance for billing adjustments and uncollectible accounts receivable, the reserve for obsolete and damaged inventory, stock-based compensation, assumptions related to the valuation of contingent consideration, valuation of long-lived assets, and realizability of deferred tax assets.

Cash, Cash Equivalents, and Short-Term Investments

Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of purchase. We classify investments with maturities of greater than three months but less than one year as short-term investments. Short-term investments are classified as held-to-maturity as the Company has the positive intent and ability to hold the investments until maturity. Held-to-maturity investments are carried at amortized cost. Due to the short-term nature, the carrying amounts reported in the consolidated balance sheet approximate fair value.

Accounts Receivable, Net

The Company's accounts receivable represent unconditional rights to consideration and are generated when a patient receives one of the Company's devices, related supplies, or distributed rehabilitation products. In conjunction with fulfilling the Company's obligation to deliver a product, the Company invoices the patient's third-party payer and/or the patient. Billing adjustments represent the difference between the list price and the reimbursement rates set by third-party payers, including Medicare, commercial payers, and amounts billed directly to the patient. Specific amounts, if uncollected over a period of time, may be written-off after several appeals, which in some cases may take longer than twelve months. Primarily all of the Company's receivables are due from patients with commercial or government health plans and worker's compensation claims with a smaller portion related to private pay individuals, attorney, and auto claims. The Company maintains a constraint for third-party payer refund requests, deductions, and adjustments. See Note 14 – Concentrations for discussion of significant customer accounts receivable balances.

Inventory, Net

Inventories are stated at the lower of cost or net realizable value. Cost is computed using standard costs, which approximates actual costs on an average cost basis.

The Company monitors inventory for turnover and obsolescence and records losses for excess and obsolete inventory, as appropriate. The Company provides reserves for estimated excess and obsolete inventories based upon assumptions about future demand. If future demand is less favorable than currently projected by management, additional inventory write-downs may be required.

Long-lived Assets

The Company records intangible assets based on estimated fair value on the date of acquisition. Long-lived assets consist of net property and equipment and intangible assets. The finite-lived intangible assets are patents and are amortized on a straight-line basis over the estimated lives of the assets.

The Company assesses impairment of long-lived assets when events or changes in circumstances indicates that their carrying value amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: (i) significant decreases in

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

the market price of the asset; (ii) significant adverse changes in the business climate or legal or regulatory factors; (iii) or, expectations that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

If the estimated future undiscounted cash flows, excluding interest charges, from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

Useful lives of finite-lived intangible assets by each asset category are summarized below:

	<u>Estimated Useful Lives in years</u>
Patents	11

Goodwill

Goodwill is recorded as the difference between the fair value of the purchase consideration and the estimated fair value of the net identifiable tangible and intangible assets acquired.

Goodwill is not subject to amortization but is subject to impairment testing. The Company utilizes the simplified test for goodwill impairment. The amount recognized for impairment is equal to the difference between the carrying value and the asset's fair value. The valuation methods used in the quantitative fair value assessment was a discounted cash flow method and required management to make certain assumptions and estimates regarding certain industry trends and future profitability of our reporting units. The Company tests more frequently if indicators are present or changes in circumstances suggest that impairment may exist. These indicators include, among others, declines in sales, earnings, or cash flows, or the development of a material adverse change in the business climate. The Company assesses goodwill for impairment at the reporting unit level. The estimates of fair value and the determination of reporting units requires management judgment.

Revenue Recognition

Revenue is derived from sales and leases of the Company's electrotherapy devices and sales of related supplies and distributed rehabilitation products. Device sales can be in the form of a purchase or a lease. Supplies needed for the device can be set up as a recurring shipment or ordered through the customer support team or online store as needed. The Company recognizes revenue when the performance obligation has been met and the product has been transferred to the patient, in the amount that reflects the consideration the Company expects to receive. In general, revenue from sales of devices and supplies is recognized once the product is delivered to the patient, which is when the performance obligation has been met and the product has been transferred to the patient.

Sales of devices and supplies are primarily shipped directly to the patient, with a small amount of revenue generated from sales to distributors. In the healthcare industry there is often a third party involved that will pay on the patients' behalf for purchased or leased devices and supplies. The terms of the separate arrangement impact certain aspects of the contracts, with patients covered by third party payers, such as contract type, performance obligations and transaction price, but for purposes of revenue recognition the contract with the customer refers to the arrangement between the Company and the patient. The Company does not have any material deferred revenue in the normal course of business as each performance obligation is met upon delivery of goods to the patient. There are no substantial costs incurred through support or warranty obligations.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following table provides a breakdown of disaggregated net revenues for the three and six months ended June 30, 2024 and 2023 related to devices accounted for as purchases subject to Accounting Standards Codification ("ASC") 606 – "Revenue from Contracts with Customers" ("ASC 606"), leases subject to ASC 842 – "Leases" ("ASC 842"), and supplies (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Device revenue				
Purchased	\$ 8,036	\$ 4,781	\$ 14,552	\$ 9,422
Leased	7,884	8,962	15,393	16,265
Total device revenue	\$ 15,920	\$ 13,743	\$ 29,945	\$ 25,687
Supplies revenue	33,963	31,209	66,469	61,435
Total revenue	\$ 49,883	\$ 44,952	\$ 96,414	\$ 87,122

Revenues are estimated using the portfolio approach by third-party payer type based upon historical rates of collection, aging of receivables, trends in historical reimbursement rates by third-party payer types, and current relationships and experience with the third-party payers, which includes estimated constraints for third-party payer refund requests, deductions, allowance for uncollectible accounts, and billing allowance adjustments. Inherent in these estimates is the risk they will have to be revised as additional information becomes available and constraints are released. If initial estimates are updated, these changes are accounted for as increases or decreases in the transaction price. Assuming the underlying performance obligation to which the change in price relates has already been satisfied, those changes in transaction price are immediately recognized as increases or decreases in revenue (not credit losses (bad debt expense)) in the period in which the estimate changes. Additionally, the complexity of third-party payer billing arrangements, the uncertainty of reimbursement amounts for certain products from third-party payers, or unanticipated requirements to refund payments previously received may result in adjustments to amounts originally recorded. Settlements with third-party payers for retroactive revenue adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price using the expected amount method. These adjustments to transaction price are estimated based on the terms of the payment agreement with the payer, correspondence from the payer, and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Due to continuing changes in the healthcare industry and third-party payer reimbursement, it is possible the Company's forecasting model to estimate collections could change, which could have an impact on the Company's results of operations and cash flows. Any differences between estimated and actual collectability are reflected in the period in which payment is received.

The Company monitors the variability and uncertain timing over third-party payer types in the portfolios. If there is a change in the Company's third-party payer mix over time, it could affect net revenue and related receivables. The Company believes it has a sufficient history of collection experience to estimate the net collectible amounts by third-party payer type. However, changes to constraints related to billing adjustments and refund requests have historically fluctuated and may continue to fluctuate significantly from quarter-to-quarter and year-to-year.

Leases

The Company determines if an arrangement is a lease at inception or modification of a contract.

The Company recognizes finance and operating lease right-of-use assets and liabilities at the lease commencement date based on the estimated present value of the remaining lease payments over the lease term. For leases, the Company uses the implicit rate to determine the present value of future lease payments. For leases that do not provide an implicit rate, the Company uses incremental borrowing rates to determine the present value of future lease payments. The Company includes options to extend or terminate a lease in the lease term when it is reasonably certain to exercise such options. The Company recognizes leases with an initial term of 12 months or less as lease expense over the lease term and those leases are not recorded on the Company's condensed consolidated balance sheets. For additional information on the leases where the Company is the lessee, see Note 13 - Leases.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A significant portion of device revenue is derived from patients who obtain devices under month-to-month lease arrangements where the Company is the lessor. Revenue related to devices on lease is recognized in accordance with ASC 842. Using the guidance in ASC 842, the Company concluded the transactions should be accounted for as operating leases based on the following criteria below:

- The lease does not transfer ownership of the underlying asset to the lessee by the end of the lease term.
- The lease does not grant the lessee an option to purchase the underlying asset that the lessee is reasonably certain to exercise.
- The lease term is month to month, which does not meet the major part of the remaining economic life of the underlying asset. However, if the commencement date falls at or near the end of the economic life of the underlying asset, this criterion shall not be used for purposes of classifying the lease.
- There is no residual value guaranteed and the present value of the sum of the lease payments does not equal or exceed substantially all of the fair value of the underlying asset.
- The underlying asset is expected to have alternative uses to the lessor at the end of the lease term.

Lease commencement occurs upon delivery of the device to the patient. The Company retains title to the leased device and those devices are classified as property and equipment on the balance sheet. Since the leases are month-to-month and can be returned by the patient at any time, revenue is recognized monthly for the duration of the period in which the patient retains the device.

Debt Issuance Costs

Debt issuance costs are costs incurred to obtain new debt financing. Debt issuance costs are presented in the accompanying condensed consolidated balance sheets as a reduction in the carrying value of the debt and are accreted to interest expense using the effective interest method.

Stock-based Compensation

The Company accounts for stock-based compensation through recognition of the cost of employee services received in exchange for an award of equity instruments, which is measured based on the grant date fair value of the award that is ultimately expected to vest during the period. The stock-based compensation expenses are recognized over the period during which an employee is required to provide service in exchange for the award (the requisite service period, which in the Company's case is the same as the vesting period). For awards subject to the achievement of performance metrics, stock-based compensation expense is recognized when it becomes probable that the performance conditions will be achieved over the respective performance period.

Segment Information

The Company defines operating segments as components of the business enterprise for which separate financial information is reviewed regularly by the chief operating decision-makers to evaluate performance and to make operating decisions. The Company has identified our Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer as our Chief Operating Decision-Makers ("CODM").

The Company currently operates business as one operating segment which includes two revenue types: Devices and Supplies.

Income Taxes

The Company records deferred tax assets and liabilities for the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in the accompanying condensed consolidated balance sheets, as well as operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if, based on available evidence, it is more likely than not that these benefits will not be realized.

Tax benefits are recognized from uncertain tax positions if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Inflation Reduction Act ("IRA") was enacted into law on August 16, 2022. Included in the IRA was a provision to implement a 15% corporate alternative minimum tax on corporations whose average annual adjusted financial statement income during the most recently completed three-year period exceeds \$1 billion. This provision is effective for tax years beginning after December 31, 2022. The IRA did not have a material impact on our reported results, cash flows, or financial position during the period ended June 30, 2024.

Recent Accounting Pronouncements

In October 2023, the Financial Accounting Standards Board ("FASB") issued ASU ("Accounting Standards Update") 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative" ("ASU 2023-06"). This ASU incorporates certain SEC disclosure requirements into the FASB ASC. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of ASC Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the ASC with the SEC's regulations. The ASU has an unusual effective date and transition requirements since it is contingent on future SEC rule setting. If the SEC fails to enact required changes by June 30, 2027, this ASU is not effective for any entities. Early adoption is not permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): "Improvements to Reportable Segment Disclosures" ("ASU 2023-07") to update reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses and information used to assess segment performance. This update is effective beginning with the Company's 2024 fiscal year annual reporting period, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Improvements to Income Tax Disclosures" ("ASU 2023-09") to enhance the transparency and decision-usefulness of income tax disclosures, particularly in the rate reconciliation table and disclosures about income taxes paid. This ASU applies to all entities subject to income taxes. This ASU will be effective for public companies for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02 "Codification Improvements – Amendments to Remove References to the Concepts Statements." This amendments to the Codification that remove references to various Concepts Statement. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2024. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2025. Early application of the amendments in this update is permitted for all entities, for any fiscal year or interim period for which financial statements have not yet been issued (or made available for issuance). If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the fiscal year that includes that interim period. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

Management does not believe that any other recently issued accounting pronouncements will have a material impact on the Company's consolidated financial statements.

(3) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash, accounts receivable, accounts payable, accrued liabilities, and contingent consideration. The carrying amounts of financial instruments, including cash, accounts receivable, accounts payable, and accrued liabilities approximate their fair value due to their short maturities. The Company measures its long-term debt at fair value which approximates book value as the long-term debt bears market rates of interest. The fair value of acquisition-related contingent consideration is based on a Monte Carlo model. The valuation policies are determined by management, and the Company's Board of Directors is informed of any policy change.

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes a hierarchy for inputs used in

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on reliability of the inputs as follows:

Level I: Inputs that reflect unadjusted quoted prices in active markets that are accessible to Zynex for identical assets or liabilities;

Level II: Inputs include quoted prices for similar assets and liabilities in active or inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level III: Unobservable inputs that are supported by little or no market activity.

The Company's assets and liabilities, which are measured at fair value, on a recurring basis, are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. The Company's policy is to recognize transfers in and/or out of fair value hierarchy as of the date in which the event or change in circumstances caused the transfer. The Company has consistently applied the valuation techniques discussed below in all periods presented.

The Company classified its contingent consideration liability in connection with the acquisition of Kestrel within Level 3 as factors used to develop the estimated fair value are unobservable inputs that are not supported by market activity.

The contingent consideration related to Kestrel was valued at \$ 9.7 million using a Monte Carlo simulation as of December 22, 2021. As of December 31, 2022 and June 30, 2023, the value of contingent consideration was estimated at \$10.0 million and \$6.9 million, respectively. An adjustment of \$3.1 million during the six months ended June 30, 2023 was recorded as a gain on change in fair value of contingent consideration in the Company's Consolidated Statements of Income. The fair value of acquisition-related contingent consideration was based on a Monte Carlo model prior to December 31, 2023. See Note 6 - Business Combinations for additional details on the removal of contingent consideration during the year ended December 31, 2023. Contingent consideration was fully removed during the year ended December 31, 2023 and there was no contingent consideration during the three and six months ended June 30, 2024. The following table presents the Company's financial liabilities that were accounted for at fair value on a recurring basis prior to December 31, 2023, which were included within Level III of the fair value hierarchy for the quarter ended June 30, 2023:

	Contingent Consideration
Balance as of December 31, 2022	\$ 10,000
Change in fair value of contingent consideration	(3,100)
Balance as of June 30, 2023	\$ 6,900

(4) INVENTORY

The components of inventory are as follows (in thousands):

	June 30, 2024	December 31, 2023
Raw materials	\$ 4,716	\$ 4,601
Work-in-process	876	530
Finished goods	7,897	6,929
Inventory in transit	2,201	1,346
	<hr style="border: 0.5px solid black;"/>	<hr style="border: 0.5px solid black;"/>
Less: reserve	\$ 15,690	\$ 13,406
	(300)	(300)
	<hr style="border: 0.5px solid black;"/>	<hr style="border: 0.5px solid black;"/>
 	\$ 15,390	\$ 13,106

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(5) PROPERTY AND EQUIPMENT

The components of property and equipment are as follows (in thousands):

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Property and equipment		
Office furniture and equipment	\$ 2,960	\$ 2,768
Assembly equipment	357	178
Vehicles	75	75
Leasehold improvements	1,840	1,174
Leased devices	1,041	796
Capital projects	155	869
	<hr/>	<hr/>
Less accumulated depreciation	\$ 6,428	\$ 5,860
	<hr/>	<hr/>
	\$ (3,178)	\$ (2,746)
	<hr/>	<hr/>
	\$ 3,250	\$ 3,114

Total depreciation expense related to our property and equipment was \$ 0.2 million for both the three months ended June 30, 2024 and 2023. Depreciation expense for the six months ended June 30, 2024 and 2023, was \$0.4 million, for both periods.

Total depreciation expense related to devices out on lease was \$ 0.5 million for both the three months ended June 30, 2024 and 2023. Depreciation expense related to devices out on lease was \$0.9 million for both the six months ended June 30, 2024 and 2023. Depreciation on leased units is reflected on the income statement as cost of revenue.

(6) BUSINESS COMBINATIONS

On December 22, 2021, the Company and its wholly-owned subsidiary Zynex Monitoring Solutions, Inc., entered into a Stock Purchase Agreement (the "Agreement") with Kestrel and each of the shareholders of Kestrel (collectively, the "Selling Shareholders"). Under the Agreement, the Selling Shareholders agreed to sell all of the outstanding common stock of Kestrel (the "Kestrel Shares") to the Company. The consideration for the Kestrel Shares consisted of \$16.1 million cash and 1,467,785 shares of the Company's common stock (the "Zynex Shares"). All of the Zynex Shares were subject to a lock-up agreement for a period of one year from the closing date under the Agreement (the "Closing Date"). The Agreement provides the Selling Shareholders with piggyback registration rights. 978,524 of the Zynex Shares were deposited in escrow (the "Escrow Shares"). The number of Escrow Shares were subject to adjustment on the one-year anniversary of the Closing Date (or in connection with any Liquidation Event (as defined in the Agreement) that occurs prior to such anniversary date) based on the number of shares equal to \$10.0 million divided by a 30-day volume weighted average closing price of the Company's common stock. The Escrow Shares were adjusted on the anniversary date, which resulted in the cancellation of 156,673 Escrow Shares. Half of the Escrow Shares were to be released on submission of a dossier on a laser-based photoplethysmographic device (the "Device") to the FDA for permission to market and sell the Device in the United States. The other half of the Escrow Shares were to be released upon determination by the FDA that the Device can be marketed and sold in the United States.

On July 27, 2023, the Company, ZMS, Kestrel, and the Selling Shareholders, entered into an amendment to the Stock Purchase Agreement (the "Amendment"). The parties entered into the Amendment to modify certain terms of the Agreement related to the conditions to be satisfied for the release of the Escrow Shares to the Selling Shareholders. The Escrow Shares were released from escrow, simultaneously, the selling stockholders entered into a lock-up agreement. The lock-up agreement included two lock-up periods which released certain restrictions on the Selling Shareholders on December 31, 2023 and June 30, 2024, respectively. These shares are included in the Company's calculation of basic earnings per share.

The acquisition of Kestrel has been accounted for as a business combination under ASC 805 – "Business Combinations" ("ASC 805"). Under ASC 805, assets acquired, and liabilities assumed in a business combination must be recorded at their fair values as of the acquisition date.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(7) GOODWILL AND OTHER INTANGIBLE ASSETS

During the year ended December 31, 2021 the Company completed the acquisition of Kestrel, which resulted in Goodwill of \$ 20.4 million (see Note 6 – Business Combinations).

As of June 30, 2024, there was no change in the carrying amount of goodwill, and there were no impairment indicators of the Company's net asset value.

The following table provides the summary of the Company's intangible assets as of June 30, 2024.

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted- Average Remaining Life (in years)
Acquired patents at December 31, 2023	\$ 10,000	\$ (1,842)	\$ 8,158	9.00
Amortization expense		(453)	(453)	
Acquired patents at June 30, 2024	<u>\$ 10,000</u>	<u>\$ (2,295)</u>	<u>\$ 7,705</u>	<u>8.48</u>

The following table summarizes the estimated future amortization expense to be recognized over the remainder of 2024, next five fiscal years, and periods thereafter:

	(In thousands)
July 1, 2024 through December 31, 2024	458
2025	908
2026	908
2027	908
2028	911
2029	908
Thereafter	2,704
Total future amortization expense	<u>\$ 7,705</u>

(8) EARNINGS PER SHARE

Basic earnings per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding and the number of dilutive potential common share equivalents during the period. Dilution resulting from stock-based compensation plans is determined using the treasury stock method and dilution resulting from the 2023 Convertible Senior Notes is determined using the if-converted method. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential common shares outstanding would be anti-dilutive.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The calculation of basic and diluted earnings per share for the three and six months ended June 30, 2024 and 2023 are as follows (in thousands, except per share data):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Basic earnings per share				
Net income	\$ 1,217	\$ 3,354	\$ 1,227	\$ 4,923
Basic weighted average shares outstanding	31,762	36,435	32,053	36,564
Basic earnings per share	\$ 0.04	0.09	0.04	0.13
Diluted earnings per share				
Net income	\$ 1,217	3,354	1,227	4,923
Weighted average shares outstanding	31,762	36,435	32,053	36,564
Effect of dilutive securities - options and restricted stock	442	626	463	685
Diluted weighted-average shares outstanding	32,204	37,061	32,516	37,249
Diluted earnings per share	\$ 0.04	0.09	\$ 0.04	\$ 0.13

For the three and six months ended June 30, 2024, equity grants of 14,000 and 9,000 shares of common stock, respectively, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive.

For the three and six months ended June 30, 2023, equity grants of 39,000 and 21,000 shares of common stock, respectively, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive.

For both the three and six months ended June 30, 2024, conversion options to purchase 5.6 million shares resulting from the 2023 Convertible Senior Notes, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive. For three and six months ended June 30, 2023, conversion options to purchase 3.2 million and 1.6 million shares, respectively, resulting from the 2023 Convertible Senior Notes, were excluded from the dilutive stock calculation because their effect would have been anti-dilutive (see Note 9 – Convertible Senior Notes).

(9) CONVERTIBLE SENIOR NOTES

In May 2023, the Company issued \$ 52.5 million aggregate principal amount of 5.00% Convertible Senior Notes due May 15, 2026 (the "2023 Convertible Senior Notes"). In May 2023, the Company issued an additional \$7.5 million aggregate principal amount of the 2023 Convertible Senior Notes upon the exercise by the initial purchasers of their over-allotment option. As of December 31, 2023 and June 30, 2024, unamortized issuance costs of \$2.4 million and \$1.9 million, respectively, were included on the Company's Condensed Consolidated Balance Sheets.

Interest on the 2023 Convertible Senior Notes is payable semiannually in arrears, beginning November 15, 2023. The 2023 Convertible Senior Notes will mature on May 15, 2026, unless earlier converted or repurchased, and are redeemable at the option of the Company on or after May 20, 2025. The 2023 Convertible Senior Notes are direct, unsecured, and unsubordinated obligations of the Company, ranking equally with all of the Company's other unsecured and unsubordinated indebtedness from time to time outstanding, and are effectively subordinated to all secured indebtedness of the Company.

Holders could have converted their 2023 Convertible Senior Notes at their option prior to the close of business on the business day preceding March 31, 2024, but only under the following circumstances: during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least twenty trading days (whether or not consecutive) during the period of thirty consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day as determined by the Company; during the five business day period after any ten consecutive trading day period (the "Measurement Period") in which the trading price per \$1,000 principal amount of 2023 Convertible Senior Notes for each trading day of the Measurement Period was less

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

than 98% of the product of the last reported sale price of the common stock and the conversion rate on each such trading day; or upon the occurrence of certain corporate events specified in the indenture governing the 2023 Convertible Senior Notes.

On or after February 15, 2026, a holder may convert all or any portion of its 2023 Convertible Senior Notes at any time prior to the close of business on the second scheduled trading day immediately preceding the maturity date regardless of the foregoing conditions.

The Company will settle conversions of the 2023 Convertible Senior Notes by paying cash up to the aggregate principal amount of the 2023 Convertible Senior Notes to be converted and paying or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company's election, in respect of the remainder, if any, of the Company's conversion obligation in excess of the aggregate principal amount of the 2023 Convertible Senior Notes being converted. The 2023 Convertible Senior Notes are initially convertible at a rate of 92.8031 shares of common stock per \$1,000 principal amount converted, which is approximately equal to \$10.78 per share of common stock. The conversion rate will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a make-whole fundamental change, which includes certain change in control transactions, the approval by Zynex's stockholders of any plan or proposal for the liquidation or dissolution of Zynex and certain de-listing events with respect to Zynex's common stock, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares of common stock for conversions in connection with the make-whole fundamental change.

Upon the occurrence of a fundamental change, holders of the 2023 Convertible Senior Notes may require the Company to purchase all or a portion of their 2023 Convertible Senior Notes, in principal amounts equal to \$1,000 or an integral multiple thereof, for cash at a price equal to 100% of the principal amount of the 2023 Convertible Senior Notes to be purchased plus any accrued and unpaid interest.

The following table summarizes the minimum interest payments over the remainder of 2024 and next two fiscal years until maturity in May 2026.

	(In thousands)
2024	\$ 1,500
2025	3,000
2026	1,500

(10) STOCK-BASED COMPENSATION PLANS

In June 2017, our stockholders approved the 2017 Stock Incentive Plan (the "2017 Stock Plan") with a maximum of 5,500,000 shares reserved for issuance. Awards permitted under the 2017 Stock Plan include: Stock Options and Restricted Stock. Awards issued under the 2017 Stock Plan are at the discretion of the Board of Directors. As applicable, awards are granted with an exercise price equal to the closing price of our common stock on the date of grant and generally vest over four years. Restricted Stock Awards are issued to the recipient upon grant and are not included in outstanding shares until such vesting and issuance occurs.

During the three and six months ended June 30, 2024 and 2023 no stock option awards were granted under the 2017 Stock Plan. At June 30, 2024, the Company had 0.3 million stock options outstanding and 0.3 million exercisable under the following plans:

Plan Category	Outstanding Number of Options (in thousands)	Exercisable Number of Options (in thousands)
2005 Stock Option Plan	1	1
2017 Stock Option Plan	339	339
Total	340	340

During the three and six months ended June 30, 2024, 134,000 and 201,000 shares of restricted stock were granted under the 2017 Stock Plan, respectively. During the three and six months ended June 30, 2023, 72,000 and 134,000 shares of restricted stock were granted to the Board of Directors and management under the 2017 Stock Plan, respectively. The fair market value of restricted shares

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for share-based compensation expensing is equal to the closing price of our common stock on the date of grant. The vesting on restricted stock awards typically occur quarterly over three years for the Board of Directors and quarterly or annually over two to four years for management.

The following summarizes stock-based compensation expenses recorded in the condensed consolidated statements of income (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Cost of Revenue	\$ 9	\$ 7	\$ 17	\$ 15
Sales and marketing expense	207	69	367	130
General, and administrative	625	584	1,191	822
Total stock-based compensation expense	<u>\$ 841</u>	<u>\$ 660</u>	<u>\$ 1,575</u>	<u>\$ 967</u>

The Company received proceeds of \$0.1 million related to option exercises during both the three and six months ended June 30, 2024 and 2023. No stock option awards were granted by the Company during the three and six months ended June 30, 2024 and 2023.

A summary of stock option activity under all equity compensation plans for the six months ended June 30, 2024, is presented below:

	Number of Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2023	349	\$ 1.82	4.12	\$ 3,163
Granted	—	\$ —	—	—
Forfeited	(2)	\$ 3.36	—	—
Exercised	(7)	\$ 2.46	—	—
Outstanding and exercisable at June 30, 2024	340	\$ 1.80	3.62	\$ 2,561

A summary of restricted stock award activity under all equity compensation plans for the six months ended June 30, 2024, is presented below:

	Number of Shares (in thousands)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2023	502	\$ 10.73
Granted	201	10.97
Forfeited	(11)	9.46
Vested	(111)	11.66
Outstanding at June 30, 2024	581	\$ 10.66

As of June 30, 2024, the Company had approximately \$ 4.9 million of unrecognized compensation expense related to stock options and restricted stock awards that will be recognized over a weighted average period of approximately 2.5 years.

(11) STOCKHOLDERS' EQUITY

Treasury Stock

On October 31, 2022, the Company's Board of Directors approved a program to repurchase up to \$ 10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through October 31, 2023. From the inception of the plan through December 31, 2022, the Company purchased 495,138 shares of its common stock for

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

\$6.6 million or an average price of \$13.43 per share. From the inception of the plan through March 31, 2023, the Company purchased 727,836 shares of its common stock for \$10 million or an average price of \$13.74 per share which completed this program.

On May 10, 2023, the disinterested members of the Board of Directors and Audit Committee approved the purchase of 300,000 shares of the Company's common stock from Thomas Sandgaard, Chairman, President, Chief Executive Officer and Principal Executive Officer, at the closing market price on May 10, 2023 of \$9.61 per share for \$2.9 million.

On June 13, 2023, the disinterested members of the Board of Directors and Audit Committee approved the purchase of 300,000 shares of the Company's common stock from Thomas Sandgaard, Chairman, President, Chief Executive Officer and Principal Executive Officer, at the closing market price on June 13, 2023, of \$8.62 per share for \$2.6 million.

On June 13, 2023 the Company announced that its Board of Directors approved a program to repurchase up to \$ 10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through June 13, 2024. From the inception of the plan through September 13, 2023, the Company purchased 1,242,892 shares of its common stock for \$10.0 million or an average price of \$8.05 per share, which completed this program.

On September 11, 2023, the Company announced that its Board of Directors approved a program to repurchase up to \$ 10.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through September 13, 2024. From the inception of the plan through October 19, 2023, the Company purchased 1,204,239 shares of its common stock for \$10.0 million or an average price of \$8.30 per share, which completed this program.

On November 1, 2023, the Company announced that its Board of Directors approved a program to repurchase up to \$ 20.0 million of the Company's common stock at prevailing market prices either in the open market or through privately negotiated transactions through October 31, 2024. From the inception of the plan through December 31, 2023, the Company purchased 1,012,200 shares of its common stock for \$9.6 million or an average price of \$9.47 per share. During the quarter ended March 31, 2024, the Company purchased 821,000 shares of common stock for \$10.4 million or an average price of \$11.73, which completed this program.

On February 29, 2024, the Company announced that its board of directors had approved a repurchase program of up to \$ 20.0 million of the Company's common stock beginning on March 4, 2024, and continuing through the earlier of March 4, 2025, or when all \$20.0 million worth of shares have been repurchased. From the inception of the plan through June 30, 2024, the Company purchased 423,894 shares of its common stock for \$5.2 million or an average price of \$12.29 per share. During the quarter ended June 30, 2024, the Company repurchased 189,879 shares of common stock for \$2.2 million or an average price of \$11.62.

Warrants

A summary of stock warrant activity for the six months ended June 30, 2024 is presented below:

	Number of Warrants (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding and exercisable at December 31, 2023	80	\$ 2.43	0.76	\$ 677
Granted	—	\$ —	—	—
Exercised	(16)	\$ 2.27	—	—
Forfeited ⁽¹⁾	(4)	\$ —	—	—
Outstanding and exercisable at June 30, 2024	60	\$ 2.48	0.27	\$ 410

(1) Warrants were exercised under a net exercise provision in the warrant agreement. As a result, approximately 4,000 warrants were forfeited in lieu of cash payment for shares during the six months ended June 30, 2024.

(12) INCOME TAXES

The income tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, primarily related to excess tax benefits or expense from stock option exercises and true ups related to the filed tax return. For both the three and six months ended June 30, 2024 discrete items adjusted were minimal. For the three and six months ended June 30, 2023 discrete items adjusted were (\$1.6) million and (\$3.1) million, respectively. For the three and six months ended June 30, 2023, the discrete items adjusted were primarily related to changes in fair value of contingent consideration. At June 30, 2024 and 2023, the Company is estimating an annual effective tax rate of approximately 25% and 27%, respectively. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to various factors.

The provision for income taxes is recorded at the end of each interim period based on the Company's best estimate of its effective income tax rate expected to be applicable for the full fiscal year. The Company's effective income tax rate was 25% and 14% for the six months ended June 30, 2024 and 2023, respectively. The increase in the Company's effective tax rate for the six months ended June 30, 2024 compared to the same period in 2023 primarily relates to the tax impact of discrete items, in particular, the change in fair value of contingent consideration recorded in the six months ended June 30, 2023. For both the three and six months ended June 30, 2024, the Company recorded an income tax expense of approximately \$0.4 million. For the three and six months ended June 30, 2023, the Company recorded an income tax expense of \$0.7 million and \$0.8 million, respectively.

Taxes of \$1.3 million and \$3.0 million were paid during the six months ended June 30, 2024 and 2023, respectively.

(13) LEASES

The Company categorizes leases at their inception as either operating or financing leases. Leases include various office and warehouse facilities which have been categorized as operating leases while certain equipment is leased under financing leases.

During February 2023, the Company entered into a lease agreement for approximately 41,427 square feet of office space for the operations of ZMS in Englewood, CO. The lease commenced on July 1, 2023 and runs through December 31, 2028. At the expiration of the lease term the Company has the option to renew the lease for one additional five-year period. The Company is entitled to rent abatements for the first six months of the lease and tenant improvement allowances. Payments based on the initial rate of \$24.75 per square foot begin in January 2024. The price per square foot increases by an additional \$0.50 during each subsequent twelve-month period of the lease after the abatement period. Upon lease commencement, the Company recorded an operating lease liability of \$4.2 million and a corresponding right-of-use asset for \$2.8 million.

The Company's operating leases do not provide an implicit rate, and therefore the Company uses its incremental borrowing rate as the discount rate when measuring the lease liability. The incremental borrowing rate represents an estimate of the interest rate the Company would incur at lease commencement to borrow an amount equal to the lease payments on a collateralized basis over the term of a lease. The Company's weighted average borrowing rate was determined to be 4.81% for its operating lease liabilities. The Company's equipment lease agreements have a weighted average rate of 4.14% which was used to measure its finance lease liability. The weighted average remaining lease term was 3.84 years and 4.49 years for operating and finance leases, respectively, as of June 30, 2024.

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2024, the maturities of the Company's future minimum lease payments were as follows (in thousands):

	Operating Lease Liability	Finance Lease Liability
July 1, 2024 through December 31, 2024	2,306	58
2025	4,632	211
2026	4,428	188
2027	4,237	173
2028	2,172	173
Thereafter	—	60
Total undiscounted future minimum lease payments	<u><u>\$ 17,775</u></u>	<u><u>\$ 863</u></u>
Less: difference between undiscounted lease payments and discounted lease liabilities:	<u><u>(1,658)</u></u>	<u><u>(85)</u></u>
Total lease liabilities	<u><u>\$ 16,117</u></u>	<u><u>\$ 778</u></u>

The components of lease expenses were as follows:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
Lease cost:				
Operating lease cost:				
Total operating lease expense	\$ 883	\$ 1,121	\$ 1,777	\$ 2,242
Finance lease cost:				
Total amortization of leased assets	45	29	95	59
Interest on lease liabilities	5	7	9	14
Total net lease cost	<u><u>\$ 933</u></u>	<u><u>\$ 1,157</u></u>	<u><u>\$ 1,881</u></u>	<u><u>\$ 2,315</u></u>

For the three months ended June 30, 2024 and 2023, \$0.8 million and \$0.1 million, respectively, of operating lease costs were included in selling, general and administrative expenses on the condensed consolidated statement of income. For the six months ended June 30, 2024 and 2023, \$1.6 million and \$1.0 million, respectively, of operating lease costs were included in selling, general and administrative expenses on the condensed consolidated statement of income. All other operating lease costs were incurred at the Company's manufacturing and warehouse facility and were included in cost of sales for the three and six months ended June 30, 2024 and 2023.

(14) CONCENTRATIONS

For the three months ended June 30, 2024, the Company sourced approximately 49% of the supplies for its electrotherapy products from three significant vendors. For the same period in 2023, the Company sourced approximately 24% of the supplies for its electrotherapy products from two significant vendors.

For the six months ended June 30, 2024, the Company sourced approximately 40% of supplies for its electrotherapy products from three significant vendors. For the same period in 2023, the Company sourced approximately 26% of supplies for its electrotherapy products from two significant vendors.

At June 30, 2024, the Company had no gross receivables from any third-party payers that made up over 10% of the net accounts receivable balance. At December 31, 2023 the Company had no gross receivables from any third-party payer that made up 10% of the net accounts receivable balance.

(15) COMMITMENTS AND CONTINGENCIES

See Note 13 for details regarding commitments under the Company's long-term leases.

From time to time, the Company may become party to litigation and other claims in the ordinary course of business. To the extent that such claims and litigation arise, management would accrue the estimated exposure for such events when losses are determined to be

ZYNEX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

both probable and estimable. On occasion, the Company engages outside counsel related to a broad range of topics including employment law, third-party payer matters, intellectual property, and regulatory and compliance matters.

The Company is currently not a party to any material pending legal proceedings that would give rise to potential loss contingencies.

(16) SUBSEQUENT EVENTS

There were no subsequent events identified through July 25, 2024.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Notice Regarding Forward-Looking Statements

This quarterly report includes statements of our expectations, intentions, plans, and beliefs that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Nonetheless, it is important for an investor to understand that these statements involve risks and uncertainties. These statements relate to the discussion of our business strategies and our expectations concerning future operations, margins, profitability, liquidity, and capital resources as well as analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. We have used words such as "may" "will" "should" "expect" "intend" "plan" "anticipate" "believe" "think" "estimate" "seek" "expect" "predict" "could" "project" "potential" and other similar terms and phrases, including references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to uncertainties, risks, and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements. These interim financial statements and the information contained in this Quarterly Report on Form 10-Q should be read in conjunction with the annual audited consolidated financial statements, and notes to consolidated financial statements, included in the Company's 2023 Annual Report on Form 10-K and subsequently filed reports, which have previously been filed with the Securities and Exchange Commission (the "SEC").

Such risks and other factors also include those listed in Item 1A. "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (the "Form 10-K"), which we filed with the SEC on March 12, 2024, and our other filings with the SEC. When considering these forward-looking statements, you should keep in mind the cautionary statements in this report and the documents incorporated by reference. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this report as a result of new information, future events or developments, except as required by applicable laws and regulations.

The information and financial data discussed below is derived from our condensed consolidated financial statements for the quarterly period ended June 30, 2024, and 2023. The condensed consolidated financial statements of the Company were prepared and presented in accordance with generally accepted accounting principles in the United States. The information and financial data discussed below is only a summary and was prepared to provide a historical and narrative discussion of our financial condition and results of operations through the eyes of management and should be read in conjunction with the historical financial statements and related notes of the Company contained elsewhere in this Quarterly Report on Form 10-Q and with the annual audited consolidated financial statements, and notes to consolidated financial statements, included in the Form 10-K and subsequently filed reports, which have previously been filed with the SEC.

General

Zynex, Inc. (a Nevada corporation) has its headquarters in Englewood, Colorado. We operate in one primary business segment, medical devices which include electrotherapy and pain management products. As of June 30, 2024, the Company's only active subsidiaries are Zynex Medical, Inc. ("ZMI," a wholly-owned Colorado corporation) through which the Company conducts most of its operations, and Zynex Monitoring Solutions, Inc. ("ZMS," a wholly-owned Colorado corporation). The Company's inactive subsidiaries include Zynex Europe, Zynex NeuroDiagnostics, Inc. ("ZND," a wholly-owned Colorado corporation) and Pharmazy, Inc. ("Pharmazy", a wholly-owned Colorado Corporation), which were incorporated in June 2015. The Company's compounding pharmacy operated as a division of ZMI dba as Pharmazy through January 2016.

In December 2021, the Company acquired 100% of Kestrel Labs, Inc. ("Kestrel"), a laser-based, noninvasive patient monitoring technology company. Kestrel's laser-based products include the NiCO™ CO-Oximeter, a multi-parameter pulse oximeter, and HemeOx™, a total hemoglobin oximeter that enables continuous arterial blood monitoring. Both NiCO and HemeOx are yet to be presented to the U.S. FDA for market clearance. All activities related to Kestrel flow through our ZMS subsidiary.

When used in this quarterly report, the terms the "Company," "Zynex", "we," "us," "ours," and similar terms refer to Zynex, Inc., a Nevada corporation, and our wholly-owned active subsidiaries, ZMI and ZMS.

RESULTS OF OPERATIONS

Summary

Net revenue was \$49.9 million and \$45.0 million for the three months ended June 30, 2024 and 2023, respectively, and \$96.4 million and \$87.1 million for the six months ended June 30, 2024 and 2023, respectively. Net revenue increased 11% for both the three and six months ended June 30, 2024. For the three and six months ended June 30, 2024, device orders increased 20% and 21%, respectively, from the same periods in 2023. Net income was \$1.2 million for the three months ended June 30, 2024 compared with \$3.4 million during the same period in 2023. Net income was \$1.2 million for the six months ended June 30, 2024 compared with \$4.9 million during the same period in 2023. Cash provided by operating activities was \$3.2 million during the six months ended June 30, 2024 compared with \$2.7 million during the same period in 2023. Working capital was \$55.9 million and \$69.3 million as of June 30, 2024 and December 31, 2023, respectively.

Net Revenue

Net revenues are comprised of device and supply sales, constrained by estimated third-party payer reimbursement deductions. The reserve for billing allowance adjustments and allowance for uncollectible accounts are adjusted on an ongoing basis in conjunction with the processing of third-party payer insurance claims and other customer collection history. Product device revenue is primarily comprised of sales and rentals of our electrotherapy products and also includes distributed rehabilitation products such as our cervical traction, lumbar support and hot/cold therapy products.

Supplies revenue is primarily comprised of sales of our consumable supplies to patients using our electrotherapy products, consisting primarily of surface electrodes and batteries. Revenue related to both devices and supplies is reported net, after adjustments for estimated third-party payer reimbursement deductions and estimated allowance for uncollectible accounts. The deductions are known throughout the healthcare industry as billing adjustments whereby the healthcare insurers unilaterally reduce the amount they reimburse for our products as compared to the sales prices charged by us. The deductions from gross revenue also take into account the estimated denials, net of resubmitted billings of claims for products placed with patients which may affect collectability. See our Significant Accounting Policies in Note 2 to the condensed financial statements for a more complete explanation of our revenue recognition policies.

We occasionally receive, and expect to continue to receive, refund requests from insurance providers relating to specific patients and dates of service. Billing and reimbursement disputes are very common in our industry. These requests are sometimes related to a few patients and other times include a significant number of refund claims in a single request. We review and evaluate these requests and determine if any refund is appropriate. We also review claims that have been resubmitted or where we are pursuing additional reimbursement from that insurance provider. We frequently have significant offsets against such refund requests which may result in amounts that are due to us in excess of the amounts of refunds requested by the insurance providers. Therefore, at the time of receipt of such refund requests we are generally unable to determine if a refund request is valid.

Net revenue increased \$4.9 million or 11% to \$49.9 million for the three months ended June 30, 2024, from \$45.0 million for the same period in 2023. Net revenue increased \$9.3 million or 11% to \$96.4 million for the six months ended June 30, 2024 from \$87.1 million for the same period in 2023. For both the three and six months ended June 30, 2024, the growth in net revenue from the same periods in 2023 is primarily related to a 20% and 21% growth in device orders, respectively, which resulted from a larger customer base and led to increased sales of consumable supplies.

Device Revenue

Device revenue is related to the sale or lease of our products. Device revenue increased \$2.2 million or 16% to \$15.9 million for the three months ended June 30, 2024, from \$13.7 million for the same period in 2023.

Device revenue increased \$4.3 million or 17% to \$29.9 million for the six months ended June 30, 2024, from \$25.7 million for the same period in 2023.

For both the three and six months ended June 30, 2024, the growth in net revenue from the same periods in 2023 is primarily related to a 20% and 21% growth in device orders, respectively.

Supplies Revenue

Supplies revenue is related to the sale of supplies, primarily electrodes and batteries, for our electrotherapy products. Supplies revenue increased \$2.8 million or 9% to \$34.0 million for the three months ended June 30, 2024, from \$31.2 million for the same period in 2023.

Supplies revenue increased \$5.0 million or 8% to \$66.5 million for the six months ended June 30, 2024, from \$61.4 million for the same period in 2023.

The increase in supplies revenue is primarily related to an increased customer base from increased device orders in 2023 and 2024.

Operating Expenses

Cost of Revenue – Devices and Supplies

Cost of revenue – devices and supplies consist primarily of device and supply costs, facilities, operations labor, overhead, shipping, and depreciation. Cost of revenue for the three months ended June 30, 2024 increased \$0.7 million or 8% to \$10.0 million from \$9.3 million from the same period in 2023. As a percentage of revenue, cost of revenue – devices and supplies decreased to 20% from 21% for the three months ended June 30, 2024 and 2023, respectively.

Cost of revenue for the six months ended June 30, 2024 increased \$0.7 million or 4% to \$19.3 million from \$18.5 million for the same period in 2023. As a percentage of revenue, cost of revenue – device and supply decreased to 20% from 21% for the six months ended June 30, 2024 and 2023.

The decrease in cost of revenue – device and supply in the three and six months ended June 30, 2024 and 2023 is due to the increased volumes related to increased revenue and expanding supplier portfolio mix. Both of which have allowed us to negotiate lower costs with our suppliers.

Sales and Marketing Expense

Sales and marketing expenses primarily consist of employee-related costs, including commissions and other direct costs associated with these personnel including travel expenses and marketing campaign and related expenses.

Sales and marketing expense for the three months ended June 30, 2024 increased \$1.6 million or 7% to \$23.2 million from \$21.6 million for the same period in 2023. The increase in sales and marketing expense is primarily due to increased commission pay from increased orders, increased headcount in the sales operation department, and rising wages in the U.S. due to a very competitive job market. As a percentage of revenue, sales and marketing expense decreased to 47% from 48% for the three months ended June 30, 2024 and 2023, respectively, primarily due to increased revenue.

Sales and marketing expense for the six months ended June 30, 2024 increased \$3.8 million or 9% to \$46.6 million from \$42.8 million for the same period in 2023. The increase in sales and marketing expense is primarily due to increased commission pay from increased orders, increased headcount in the sales operation department, and inflation and rising wages in the U.S. due to a very competitive job market. As a percentage of revenue, sales and marketing expense decreased to 48% from 49% for the six months ended June 30, 2024 and 2023, respectively. The decrease as a percentage of revenue is primarily due to the increase in revenue during the period.

General and Administrative Expense

General and administrative expenses primarily consist of employee-related costs, and other direct costs associated with these personnel including facilities, travel expenses, professional fees, depreciation, and amortization. General and administrative expense for the three months ended June 30, 2024 increased \$3.1 million or 27% to \$14.5 million from \$11.4 million for the same period in 2023. The increase in general and administrative expense for the three months is primarily due to increased compensation and benefit expense related to headcount growth at both ZMS and our reimbursement department along with increased professional fees related to additional external resources. As a percentage of revenue, general and administrative expense increased to 29% for the three months ended June 30, 2024 from 25% for the same period in 2023. The increase as a percentage of revenue is primarily due to the items noted above, partially offset by the increase in revenue during the period.

General and administrative expense for the six months ended June 30, 2024 increased \$5.1 million or 22% to \$27.8 million from \$22.7 million for the same period in 2023. The increase in general and administrative expense for the six months is primarily due to increased professional fees and increased compensation and benefit expense related to headcount growth at both ZMS and within the

billing departments. As a percentage of revenue, general and administrative expense increased to 29% for the six months ended June 30, 2024 from 26% for the same period in 2023. The increase as a percentage of revenue is primarily due to the aforementioned expenses, partially offset by the increase in revenue during the period.

Income Taxes

The provision for income taxes is recorded at the end of each interim period based on the Company's best estimate of its effective income tax rate expected to be applicable for the full fiscal year. The Company's effective income tax rate was 25% for both the three and six months ended June 30, 2024. Discrete items were minimal for both the three and six months ended June 30, 2024. For the three and six months ended June 30, 2023 discrete items adjusted were (\$1.6) million and (\$3.1) million, respectively, which were primarily related to changes in fair value of contingent consideration. For both the three and six months ended June 30, 2024, the Company recorded an income tax expense of approximately \$0.4 million. The Company recorded income tax expense of \$0.7 million and \$0.8 million for the three and six months ended June 30, 2023, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We have historically financed operations through cash flows from operations, debt and equity transactions. At June 30, 2024, our principal source of liquidity was \$30.9 million in cash and cash equivalents and \$23.6 million in accounts receivable.

Net cash provided by operating activities for the six months ended June 30, 2024 was \$3.2 million compared with net cash provided by operating activities of \$2.7 million for the six months ended June 30, 2023. The increase in cash provided by operating activities for the six months ended June 30, 2024 was primarily due to increased cash collections, which resulted in a decrease in the receivables balance. An increase in accounts payable also contributed to the cash provided by operating activities, which was offset by an increase in inventory.

Net cash used in investing activities for the six months ended June 30, 2024 and 2023 was \$0.3 million and \$0.4 million, respectively. Cash used in investing activities for the six months ended June 30, 2024 was primarily related to the purchases of property and equipment related to the build out of our facility in Englewood for the operations of ZMS. Cash used in investing activities for the six months ended June 30, 2023 was primarily related to the build out of our facility for the operations of ZMS, and the purchase of computer equipment.

Net cash used in financing activities for the six months ended June 30, 2024 was \$16.6 million compared with net cash provided by financing activities of \$36.3 million for the same period in 2023. Net cash used in financing activities for the six months ended June 30, 2024 was primarily due to purchases of \$15.6 million in treasury stock. Net cash provided by financing activities for the six months ended June 30, 2023 was primarily due to the proceeds from the issuance of the 2023 Convertible Senior Notes of \$57.0 million, which was partially offset by purchases of treasury stock of \$9.5 million, and principal payments on long-term debt totaling \$10.7 million.

We believe our cash and cash equivalents, together with anticipated cash flow from operations will be sufficient to meet our working capital, and capital expenditure requirements for at least the next twelve months. In making this assessment, we considered the following:

- Our cash and cash equivalents balance at June 30, 2024 of \$30.9 million;
- Our working capital balance of \$55.9 million;
- Our projected income and cash flows for the next 12 months.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America.

Please refer to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 to the consolidated financial statements located within our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on March 12, 2024.

COVID-19 UPDATE

In December 2019, a novel strain of coronavirus ("COVID-19") emerged and spread to other countries, including the United States. In March 2020, the World Health Organization declared COVID-19 as a pandemic (the "COVID-19 pandemic"). The COVID-19 pandemic, including multiple variants, resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, "shelter in place" and "stay at home" orders, travel restrictions, business interruptions and other measures.

Although the World Health Organization declared an end to the COVID-19 pandemic on May 5, 2023, we continue to actively monitor the impact of COVID-19. While the Company did not incur significant disruptions to its operations during the three and six months ended June 30, 2024 from COVID-19, the full extent of COVID-19 on our operations and the markets we serve remains uncertain and will depend largely on future developments related to COVID-19, including infection rates increasing or returning in various geographic areas, variations of COVID-19, actions by government authorities to contain the outbreak or treat its impact, such as reimposing previously lifted measures or putting in place additional restrictions, and the widespread distribution and acceptance of an effective vaccine, among other things. Future developments regarding COVID-19 and its effects cannot be accurately predicted.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

N/A.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934), as amended, or the Exchange Act, as of June 30, 2024. Based on management's review, with participation of our Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the quarter ended June 30, 2024, our disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting as described below.

Material Weakness in Internal Control

A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in "Management's Annual Report on Internal Control Over Financial Reporting":

It was determined that as of December 31, 2023, the Company's primary change management controls were not designed and implemented effectively to ensure IT program and data changes affecting the Company's financial IT applications and underlying accounting records, are identified, tested, authorized and implemented appropriately to validate that data produced by its relevant IT system(s) were complete and accurate. Other Information Technology General Controls, automated process-level controls, and manual controls that are dependent upon the information derived from such financially relevant systems were also determined to be ineffective as a result of such deficiency. Business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted;

Ineffective design and implementation of controls over the valuation of accounts receivable to properly address the risk of material misstatement.

The material weakness identified above did not result in any material misstatements in our financial statements or disclosures, and there were no changes to previously released financial results. Our management concluded that the consolidated financial statements included in the Annual Report on Form 10-K, present fairly, in all material respects, our financial position, results of operations, and cash flows for the periods presented in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

The effectiveness of our internal control over financial reporting as of December 31, 2023, has been audited by Marcum LLP as stated in their report, which is included in Item 8 of the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2024.

Remediation Plan

Our management is committed to maintaining a strong internal control environment. In response to the identified material weakness above, management will take comprehensive actions to remediate the material weakness in internal control over financial reporting. We are in the process of developing and implementing remediation plans to address the material weakness described above.

Changes in Internal Control over Financial Reporting

Except for the items referred to above, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended June 30, 2024 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Inherent Limitation on the Effectiveness of Internal Control

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on March 12, 2024.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Items 2(a) and 2(b) are not applicable.

(c) Stock Repurchases.

Issuer Purchases of Equity Securities

On February 29, 2024, the Company announced that its board of directors had approved a repurchase program of up to \$20.0 million of the Company's common stock beginning on March 4, 2024, and continuing through the earlier of March 4, 2025, or when all \$20.0 million worth of shares have been repurchased.

Under the Company's repurchase program, the Company may repurchase its common stock from time to time in open market and negotiated transactions. Repurchases will be made subject to market conditions, available liquidity, cash flow, applicable legal requirements, and other factors. The specific prices, numbers of shares, and timing of purchase transactions will be determined by the Company from time to time. The repurchase program does not obligate the Company to acquire any particular amount of common stock and may be suspended or discontinued at any time. The repurchase program is intended to comply with Rule 10b-18 promulgated under the Securities Exchange Act of 1934.

[Table of Contents](#)

The following table sets forth a summary of the Company's purchases of common stock during the second quarter of 2024 pursuant to the Company's authorized share repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	In Thousands Maximum Value of Shares That May Yet Be Purchased Under the Plan
April 1 - April 30, 2024				
Share repurchase program (1)	132,500	\$ 11.96	366,515	15,411
May 1 - May 31, 2024				
Share repurchase program (1)	45,379	\$ 11.17	411,894	14,904
June 1 - June 30, 2024				
Share repurchase program (1)	12,000	\$ 9.45	423,894	14,791
Quarter Total				
Share repurchase program (1)	189,879	\$ 11.62	423,894	14,791

(1) Shares were purchased through the Company's publicly announced repurchase Program. The repurchase program expires on March 4, 2025, or upon reaching \$20.0 million of repurchases.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

N/A

ITEM 5. OTHER INFORMATION

Rule 10b5-1 Trading Arrangement

During the three months ended June 30, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a) as Adopted Pursuant to Section 302 of Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Calculation Linkbase Document
101.LAB *	XBRL Taxonomy Label Linkbase Document
101.PRE *	XBRL Presentation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ZYNEX, INC.

Dated: July 25, 2024

/s/ Daniel J. Moorhead

Daniel J. Moorhead

Chief Financial Officer

(Principal Financial and Accounting Officer)

CERTIFICATION

I, Thomas Sandgaard, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zynex, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 25, 2024

/s/ THOMAS SANDGAARD

Thomas Sandgaard

Chairman, President, Chief Executive Officer and Principal
Executive Officer

CERTIFICATION

I, Daniel J. Moorhead, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Zynex, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: July 25, 2024

/s/ Daniel J. Moorhead

Daniel J. Moorhead
Chief Financial Officer and Principal Financial and Accounting
Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, for the purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Zynex, Inc. ("Zynex"), that to his knowledge:

1. This Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Zynex for the period covered by this Report.

Dated: July 25, 2024

/s/ Thomas Sandgaard

Thomas Sandgaard
Chairman, President, Chief Executive Officer and Principal
Executive Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, for the purposes of Section 1350 of Chapter 63 of Title 18 of the United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in his capacity as an officer of Zynex, Inc. ("Zynex"), that to his knowledge:

1. This Quarterly Report on Form 10-Q for the quarter ended June 30, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of Zynex for the period covered by this Report.

Dated: July 25, 2024

/s/ Daniel J. Moorhead

Daniel J. Moorhead
Chief Financial Officer and Principal Financial and Accounting
Officer
